# University of St. Thomas

Consolidated Financial Statements as of and for the Years Ended June 30, 2011 and 2010, and Independent Auditors' Report

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### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the University of St. Thomas:

We have audited the accompanying consolidated balance sheets of the University of St. Thomas (the "University") as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

October 3, 2011

Delotte's Touche LLP

# CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 10,385,053	\$ 9,034,169
STUDENT ACCOUNTS AND OTHER RECEIVABLES — Net of allowance for doubtful accounts of \$325,891 and \$158,073 in 2011 and 2010, respectively	2,635,448	499,531
PLEDGES RECEIVABLE — Net	8,731,986	7,648,031
PREPAYMENTS AND OTHER ASSETS	2,418,410	2,044,756
NOTES AND LOANS RECEIVABLE	702,207	778,428
INVESTMENTS	59,934,913	46,125,712
CASH RESTRICTED UNDER DEBT COVENANTS	60,906	59,407
CASH AND INVESTMENTS RESTRICTED FOR INVESTMENT IN LAND, BUILDING, AND EQUIPMENT	1,250,187	431,000
PROPERTY, PLANT, AND EQUIPMENT — Net	92,917,492	94,201,836
TOTAL	\$179,036,602	\$160,822,870
LIABILITIES AND NET ASSETS		
LIABILITIES: Accounts payable Accrued liabilities Deferred revenues U.S. government grants refundable Bonds and loans payable	\$ 3,225,350 3,022,894 1,661,864 563,948 35,802,282	\$ 2,914,865 3,066,758 445,837 563,948 36,952,683
Total liabilities	44,276,338	43,944,091
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS: Unrestricted Temporarily restricted Permanently restricted	60,682,498 16,936,255 57,141,511	53,778,068 14,605,491 48,495,220
Total net assets	134,760,264	116,878,779
TOTAL	\$179,036,602	\$160,822,870

# CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Tuition and fees	\$48,637,802	\$	\$	\$ 48,637,802
Less student aid	(8,672,831)	Ψ	Ψ	(8,672,831)
Tuition and fees — net	39,964,971			39,964,971
Endowment comings used for corrections	2 215 242			2 215 242
Endowment earnings used for current operations Government and private grants	2,215,243	9.607	102 052	2,215,243 2,351,856
Gifts and donations	2,159,396	8,607 2,037,222	183,853	
	3,827,933	2,037,222		5,865,155
Auxiliary operations	2,674,977			2,674,977
Commercial real estate rental	2,773,922			2,773,922
Other income	651,979	(714226)		651,979
Net assets released from restrictions	714,326	(714,326)		
Total operating revenues	54,982,747	1,331,503	183,853	56,498,103
OPERATING EXPENSES:				
Instruction	24,406,807			24,406,807
Library	1,706,910			1,706,910
Academic support	1,216,987			1,216,987
Student services	5,746,447			5,746,447
Institutional support	8,160,008			8,160,008
Institutional advancement	2,806,524			2,806,524
Auxiliary operations	5,699,246			5,699,246
UST Realty Company	2,771,032			2,771,032
OST Realty Company	2,771,032	<del></del>		2,771,032
Total operating expenses	52,513,961			52,513,961
CHANGES IN NET ASSETS FROM OPERATING				
ACTIVITIES	2,468,786	1,331,503	183,853	3,984,142
NONOPERATING:				
Gifts and donations			6,356,846	6,356,846
Endowment gain (loss) in excess of amounts designated			0,550,040	0,550,040
for current operations — net	3,912,864	2,477,657		6,390,521
Reinvestment of endowment losses under terms	3,712,004	2,477,037		0,370,321
of endowment			1,149,976	1,149,976
Net assets released from restrictions for long-term			1,149,970	1,149,970
•	504,054	(504,054)		
purposes Other	18,726	(974,342)	955,616	
Other	16,720	(9/4,342)	933,010	
CHANGES IN NET ASSETS FROM				
NONOPERATING ACTIVITIES	4,435,644	999,261	8,462,438	13,897,343
CHANGES IN NET ASSETS	6,904,430	2,330,764	8,646,291	17,881,485
NET ASSETS:	<b>52 75</b> 0 060	14 605 401	40.405.220	117.050.550
Beginning of year	53,778,068	14,605,491	48,495,220	116,878,779
End of year	\$60,682,498	\$16,936,255	\$57,141,511	\$134,760,264

# CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Tuition and fees	\$43,275,515	\$ -	\$ -	\$ 43,275,515
Less student aid	(8,084,027)			(8,084,027)
Tuition and fees — net	35,191,488	-	-	35,191,488
Endowment earnings used for current operations	2,306,845			2,306,845
Government and private grants	1,700,569	22,642	296,147	2,019,358
Gifts and donations	4,465,119	978,392	,	5,443,511
Auxiliary operations	3,036,941	ŕ		3,036,941
Commercial real estate rental	3,600,152			3,600,152
Other income	520,679			520,679
Net assets released from restrictions	505,654	(505,654)		
Total operating revenues	51,327,447	495,380	296,147	52,118,974
OPERATING EXPENSES:				
Instruction	21,841,629			21,841,629
Library	1,665,650			1,665,650
Academic support	1,026,324			1,026,324
Student services	5,421,963			5,421,963
Institutional support	7,755,202			7,755,202
Institutional advancement	2,454,914			2,454,914
Auxiliary operations	5,780,793			5,780,793
UST Realty Company	2,367,952			2,367,952
Total operating expenses	48,314,427			48,314,427
CHANGES IN NET ASSETS FROM OPERATING				
ACTIVITIES	3,013,020	495,380	296,147	3,804,547
NONOPERATING:				
Gifts and donations			1,813,938	1,813,938
Endowment gain (loss) in excess of amounts designated				
for current operations — net	1,994,107	(149,604)		1,844,503
Reinvestment of endowment losses under terms				
of endowment			315,184	315,184
Net assets released from restrictions for long-term				
purposes	427,197	(427,197)		-
Other	164,804	(105,548)	(59,256)	
CHANGES IN NET ASSETS FROM				
NONOPERATING ACTIVITIES	2,586,108	(682,349)	2,069,866	3,973,625
CHANGES IN NET ASSETS	5,599,128	(186,969)	2,366,013	7,778,172
NET ASSETS:				
Beginning of year	48,178,940	14,792,460	46,129,207	109,100,607
End of year	\$53,778,068	\$14,605,491	\$48,495,220	\$116,878,779

# CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 17,881,485	\$ 7,778,172
Adjustments to reconcile changes in net assets to net cash provided		
by operating activities:		
Depreciation and amortization	4,477,165	4,625,423
Amortization related to bond financing	46,808	53,785
Bad debt expense	257,776	140,005
Gifts and donations restricted for long-term purposes	(8,462,438)	(2,129,122)
Net realized and unrealized (gain) loss on investments	(8,653,278)	(3,598,754)
Changes in operating assets and liabilities:		
Student accounts and other receivables	(2,393,694)	(287,626)
Pledges receivable — net	(1,083,956)	811,282
Prepayments and other assets	(420,463)	447,450
Notes and loans receivable	76,221	23,293
Accounts payable and accrued liabilities	245,219	519,567
Deferred revenues	1,216,027	(24,345)
Net cash provided by operating activities	3,186,872	8,359,130
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale/maturities of investments	2,547,068	2,626,185
Purchases of investments	(7,702,991)	(3,403,042)
Purchases of property, plant, and equipment	(3,171,417)	(1,592,797)
Change in cash restricted for investment in land, building,		
and equipment	(819,187)	(174,822)
Net cash used in investing activities	(9,146,527)	(2,544,476)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts and donations restricted for long-term purposes	8,462,438	2,129,122
Repayment of bonds and loans payable	(1,150,401)	(2,147,120)
Change in cash restricted under debt covenants	(1,498)	(1)
Net cash provided by (used in) financing activities	7,310,539	(17,999)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,350,884	5,796,655
CASH AND CASH EQUIVALENTS: Beginning of year	9,034,169	3,237,514
End of year	\$ 10,385,053	\$ 9,034,169
CASH PAID FOR INTEREST	\$ 1,911,217	\$ 1,586,099
NONCASH TRANSACTION — Property purchases in accounts payable	<u>\$ 21,402</u>	\$ 5,061

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — The University of St. Thomas (the "University") was founded in 1947 by the Congregation of St. Basil ("Basilian Fathers"). The University is incorporated as a Texas nonprofit corporation and is governed by an independent Board of Directors. A comprehensive university, educating both undergraduate and graduate students, the University enjoys a national reputation for academic excellence and a diverse student body.

Located near Houston's museum district, one of the city's most attractive areas, and minutes from a thriving downtown cultural district, the University offers both undergraduate and graduate degree programs. Over 90% of the faculty members hold the highest degree in their discipline. The students are predominantly Texan; however, many of them come from other states and from 58 foreign countries. High acceptance rates for graduate school, law school, and allied health professions and medical school reflect strong academic undergraduate preparation.

UST Realty Company, a wholly owned subsidiary of the University, was formed to acquire commercial real estate property. For additional information, refer to Note 4.

**Auxiliary Operations** — Auxiliary operations consist primarily of student housing facilities, dining services, and other student services.

**Basis of Accounting** — The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The University's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

*Unrestricted* — Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted — Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted — Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets. In addition, some donors may require that all of the earnings be added to the corpus until certain stipulations are met. Such assets include the University's permanent endowment funds.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed contribution stipulations that simultaneously increase unrestricted net assets and decrease temporarily restricted net assets are reported as net assets released from restrictions. Temporarily restricted contributions received and expended during the same fiscal year are recorded as unrestricted revenues and expenses in the consolidated statement of activities.

Cash and Cash Equivalents — The University considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents invested for long-term purposes are included in investments.

Cash and Investments Restricted for Investment in Land, Building, and Equipment — Amounts received from donors for use in capital programs are classified as cash and investments restricted for investment in land, building, and equipment in the consolidated balance sheets.

**Cash Restricted Under Debt Covenants** — Amounts held on deposit with trustees as collateral for bonds are classified as cash restricted under debt covenants in the consolidated balance sheets.

Compensated Absences — As of June 30, 2011 and 2010, the University had an obligation relating to its employees' rights to receive compensation for future absences. This obligation is attributable to employees' services already rendered. The employees are allowed to carry forward up to two years of compensated absences earned but unused at the end of the fiscal year. However, at termination, an employee will be paid up to one year of compensated absences earned and not used. The liability for compensated absences is included in accrued liabilities in the accompanying consolidated balance sheets.

Concentrations of Credit Risk — The University is subject to concentrations of credit risk relating primarily to cash, marketable securities, and receivables. The University's cash deposits are held in major financial institutions. Marketable securities consist primarily of corporate stocks, which could subject the University to losses in the event of a general downturn in the stock markets. The University has reduced its risk relating to common stock through diversification into investments in a variety of industries. The University's receivables from students are monitored for potential losses, and an allowance for doubtful accounts is established based on the age of unpaid accounts and the University's experience. Pledges receivable represent unconditional promises to give and are monitored by the University for potential losses.

**Contributions** — Contributions received, including unconditional promises to give (pledges), are recorded as revenues in the period received at their discounted present values and are amortized into income on an effective yield basis. The University's policy regarding the recording of pledges is to include all pledges greater than \$10,000.

**Functional Expenses** — Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to program and supporting activities based upon the square footage of utilized facilities. Interest costs are allocated to program and supporting activities based upon the use of the funds borrowed.

**Grants, Gifts, and Donations** — Government grants and private gifts and donations include amounts received in the unrestricted, temporarily restricted, and permanently restricted net asset categories. Upon expiration of the restrictions, the applicable gift and grant revenue is reclassified from the temporarily restricted net asset category to the unrestricted net asset category.

Interpretation of Relevant Law — The Board of Directors of the University interprets the Texas Prudent Management of Institutional Funds Act (TPMIFA) as requiring the preservation of the fair value of original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument

at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by TPMIFA.

In accordance with TPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1. The duration and preservation of the fund
- 2. The purposes of the organization and the donor-restricted endowment fund
- 3. General economic conditions
- 4. The possible effect of inflation and deflation
- 5. The expected total return from income and the appreciation of investments
- 6. Other resources of the organization
- 7. The investment policies of the University

Investments and Endowment Spending Policy — The estimated fair value of investments is based on quoted market prices, except for certain alternative assets for which quoted market prices are not available. The estimated fair value of these alternative assets is based on the most recent valuations provided by the external investment managers. The University reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values. Therefore, the University believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TPMIFA requires the University to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles ("GAAP"), deficiencies of this nature reported in unrestricted net assets were \$475,703 as of June 30, 2011, and \$2,383,827 as of June 30, 2010. These deficiencies resulted from unfavorable market fluctuations and the continued distribution of endowment assets per the University's spending and investment policies.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs and scholarships supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that equal or exceed a real rate of return of 5.5% plus inflation ( Consumer Price Index, "CPI") over a10-year period. Actual returns in any given year may vary from this percentage.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment income, including realized and unrealized gains or losses on investments, is recognized in the appropriate net asset category according to the existence or absence of donor-imposed

restrictions. Endowment funds, which consist primarily of marketable securities, are pooled for investment management purposes. Income from investments is allocated to each endowment based upon the relative market value and the type of endowment. The endowment spending policy provides for an endowment income distribution equal to 5% based on a 12-quarter moving average of the endowment assets, excluding pledges receivable. Sources of this distribution for each restricted endowment fund, in the order utilized, are (a) earned income as traditionally defined (interest and dividends), (b) reinvested earned income from prior years, and (c) capital gains were not prohibited by the gift document. Sources of this distribution for the unrestricted general endowment fund, in the order utilized, are (a) earned income as traditionally defined (interest and dividends) and (b) capital gains. In establishing the spending policy, the University considered the long-term expected return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an average of 5.5% plus inflation (CPI) annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The revenues from applying this endowment spending rate policy are recorded in the operating revenues section in the consolidated statements of activities. Any difference between actual total endowment return, including realized and unrealized gains and losses, and the endowment spending rate is recorded in the non-operating section of the consolidated statements of activities.

**Long-Lived Assets** — At each balance sheet date, the University evaluates the carrying amount of its long-lived assets. In the event that facts and circumstances indicate that the cost of long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation of impairment is required, the estimated future undiscounted cash flows associated with an asset would be compared to the asset's carrying amount to determine if a write-down to market value or cash flow value is required.

**Operating Measure** — The operating activities of the University include all current income and expenses, including unrestricted and temporarily restricted gifts and donations. Non-operating activities reflect gifts and donations of a permanent nature to be used by the University to generate a return that will support operations and release of temporary restrictions on net assets to be used for long-term purposes.

**Prior-Year Presentation** — During the year ended June 30, 2011, the functional classification of certain operating departments was changed: Assessment was changed from Academic Support to Instruction, Academic Advising was changed from Instruction to Academic Support, and Catholic Outreach was changed from Institutional Support to Academic Support. This change was also made in the accompanying 2010 consolidated statement of activities for comparability with the 2011 statement. This change has no impact on total operating expenses or net assets as previously reported in the 2010 consolidated financial statements.

**Property, Plant, and Equipment** — Property, plant, and equipment are stated at cost at date of acquisition or fair value at date of donation, less accumulated depreciation. Plant and equipment are depreciated over the estimated useful lives of the assets using the straight-line method ranging from 5 to 50 years. Upon retirement or sale, the University removes the cost of the assets and the related accumulated depreciation from the accounts and reflects any resulting gains or losses in income.

**Risks and Uncertainties** — Investment securities are exposed to various market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such changes could materially affect the amounts recorded in the consolidated balance sheets.

**Subsequent Events** — The University has evaluated subsequent events through October 3, 2011, the date when the consolidated financial statements were available to be issued. No subsequent events requiring disclosure were identified.

Tax Status — The University has received from the Internal Revenue Service a determination letter of exemption from federal income tax under Section 501 (c)(3) of the Internal Revenue Code, and accordingly, no provision has been made for such taxes. UST Realty Company has the same tax status, and accordingly, no provision has been made for federal income taxes. Accounting standards require that the University recognize in its consolidated financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. Tax positions taken related to the University's tax-exempt status, unrelated business activities taxable income and the deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the University would more likely than not be sustained by examination. Accordingly, the University has not recorded an income tax liability for uncertain tax benefits.

Use of Estimates in the Preparation of Consolidated Financial Statements — The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**U.S. Government Grants Refundable** — Advances made from government agencies to the University are classified as refundable advances.

### 2. PLEDGES RECEIVABLE

Pledges receivable are expected to be realized at June 30, 2011 and 2010, in the following periods:

	2011	2010
Less than one year Between one and five years More than five years	\$ 566,820 8,789,254	\$ 332,994 7,851,519 103,488
Gross pledges	9,356,074	8,288,001
Less present value discount	(624,088)	(639,970)
Net pledges receivable	\$8,731,986	\$7,648,031

Net pledges receivable at June 30, 2011 and 2010, included pledges with the following restrictions:

	2011	2010
Gifts to the capital campaign for construction of plant	\$ 226,279	\$ 619,220
Gifts to the capital campaign — undesignated	272,851	266,966
Gifts restricted for unbudgeted activities	650,505	1,625,362
Gifts to endowment for general and scholarship purposes	7,582,351	5,136,483
Total	\$8,731,986	\$7,648,031

### 3. INVESTMENTS

Endowment investments at June 30, 2011 and 2010, consisted of the following:

	2011		2	010
	Fair Value	Cost	Fair Value	Cost
Equities U.S. government and agency securities and	\$34,710,288	\$25,510,620	\$27,321,632	\$24,152,147
corporate bonds Alternative investments Temporary cash and	12,878,389 7,312,070	12,135,057 7,203,827	11,178,060 6,530,105	10,809,036 6,781,586
short-term investments	5,034,166	5,034,166	1,095,915	1,095,915
Total	\$59,934,913	\$49,883,670	\$46,125,712	\$42,838,684

Investment return and its classification in the consolidated statements of activities for the years ended June 30, 2011 and 2010, was as follows:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest Net realized and unrealized	\$ 728,837	\$ 461,505	\$ 214,202	\$ 1,404,544
gains Distributions from endowment	4,487,289	2,841,388	1,318,798	8,647,475
used for current operations	(1,303,262)	(825,236)	(383,024)	(2,511,522)
Endowment earnings in excess of amounts designated for current				
operations — net	\$ 3,912,864	\$ 2,477,657	\$1,149,976	\$ 7,540,497

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest Net realized and unrealized	\$ 851,280	\$ 252,146	\$ 83,692	\$ 1,187,118
gains Distributions from endowment	2,362,243	939,329	250,731	3,552,303
used for current operations	(1,219,416)	(1,341,079)	(19,239)	(2,579,734)
Endowment earnings in excess of amounts designated for current				
operations — net	\$ 1,994,107	\$ (149,604)	\$315,184	\$ 2,159,687

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Investment return was reported net of custodial and investment advisory fees of \$296,280 and \$272,889 for the years ended June 30, 2011 and 2010, respectively.

### 4. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2011 and 2010, consisted of the following:

	2011	2010
Buildings and improvements	\$ 93,318,108	\$ 92,338,769
Machinery and equipment	19,921,885	18,928,314
Furniture and fixtures	1,596,623	1,466,745
Library books	11,167,074	10,889,027
Software	3,534,961	3,501,936
Total	129,538,651	127,124,791
Less accumulated depreciation	(57,733,022)	(53,706,596)
Net depreciable plant and equipment	71,805,629	73,418,195
Construction in progress	380,243	374,421
Land	20,731,620	20,409,220
Property, plant, and equipment — net	\$ 92,917,492	\$ 94,201,836

On February 1, 2007, UST Realty Company, a wholly owned subsidiary of the University, purchased two commercial office buildings and a retail center with an associated parking garage, all contiguous to the University's campus. The University leases the office space to commercial tenants. The acquisition is financed through a loan with JPMorgan Chase Bank.

### 5. BONDS AND LOANS PAYABLE

Bonds and loans payable at June 30, 2011 and 2010, consisted of the following:

	2011	2010
Wallis County Higher Education Facilities Corporation revenue and refunding bonds, interest rates ranging from 3.59% to 6.12%, annual principal payments ranging from \$325,000 to \$750,000 with interest due semiannually, maturity dates from 2010 to 2021, collateralized by revenues Building bonds bearing interest at 3%, annual principal payments	\$ 5,685,000	\$ 6,010,000
ranging from \$32,000 to \$42,000 with interest due semiannually, maturity dates from 2010 to 2019, collateralized by first mortgages on buildings, first liens on net revenues from operation of the buildings, marketable securities, and cash on deposit with trustees	340,000	372,000
Crawford Educational Facilities Corporation Higher Education Revenue Bonds, interest rates ranging from 2.250% to 5.375%, annual principal payments ranging from \$430,000 to \$2,095,000 with interest due semiannually, maturity dates from 2010 to	ŕ	,
2027, collateralized by revenues JPMorgan Chase real estate loan, UST Realty Company, balance due on September 1, 2015, quarterly interest payments at 5.25% through March 1, 2011, then quarterly interest and	17,355,000	17,785,000
principal payments of \$178,148 Milford Higher Education Facilities Corporation Tax Exempt Loan, quarterly interest payments at 3.09%, quarterly	10,538,198	10,574,472
principal payments of \$62,500 through 2013 Northern Trust Bank loan, monthly interest and principal payment of \$9,079, final payment on May 5, 2018 of all principal and	625,000	875,000
accrued interest not yet paid	1,324,427	1,405,639
Subtotal	35,867,625	37,022,111
Less discount on issuance of Crawford Educational Facilities Corporation Higher Education Revenue Bonds	(65,343)	(69,428)
Total	\$35,802,282	\$36,952,683

Total interest expense incurred on bonds and loans payable for the years ended June 30, 2011 and 2010, was \$1,891,230 and \$1,625,784, respectively.

Future principal maturities of bonds and loans payable at June 30, 2011, were as follows:

Years Ending June 30	
2012	\$ 1,314,357
2013	1,367,832
2014	1,295,227
2015	1,233,030
2016	10,972,232
Thereafter	19,619,604
Total	\$ 35,802,282

On March 11, 2010, the University entered into a Letter of Credit Agreement (the "Agreement") for \$7,150,000; no funds were drawn on the Agreement as of June 30, 2010. The Agreement was canceled December 9, 2010.

### 6. NET ASSETS

Temporarily restricted net assets at June 30, 2011 and 2010, consisted of the following:

	2011	2010
Restricted for operating activities Restricted for investment in land, building, and equipment Restricted for quasi endowment	\$ 4,541,614 1,193,265 11,201,376	\$ 5,495,232 384,818 8,725,441
Total temporarily restricted net assets	\$16,936,255	\$14,605,491

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$(1,385,408)	\$ 8,725,441	\$48,495,220	\$55,835,253
Investment return: Investment income Net gains (realized and	735,336	461,505	214,202	1,411,043
unrealized)	2,482,012	2,839,666	1,318,798	6,640,476
Total investment return	3,217,348	3,301,171	1,533,000	8,051,519
Contributions			6,540,698	6,540,698
Distributions	(1,303,262)	(825,236)	(383,024)	(2,511,522)
Reclass net assets	54,837		955,617	1,010,454
Endowment net assets — end of year	\$ 583,515	\$ 11,201,376	\$57,141,511	\$68,926,402

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$(3,487,495)	\$ 8,978,870	\$46,129,207	\$51,620,582
Investment return: Investment income Net gains (realized and	855,436	252,146	83,692	1,191,274
unrealized)	2,362,243	939,329	250,731	3,552,303
Total investment return	3,217,679	1,191,475	334,423	4,743,577
Contributions			2,110,085	2,110,085
Distributions	(1,219,417)	(1,341,079)	(19,239)	(2,579,735)
Reclass net assets	103,825	(103,825)	(59,256)	(59,256)
Endowment net assets — end of year	<u>\$(1,385,408)</u>	\$ 8,725,441	\$48,495,220	\$55,835,253

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) as of June 30, 2011 and 2010, is as follows:

	2011	2010
Permanently restricted net assets — the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TPMIFA	\$57,141,511	\$48,495,220
Total endowment classified as permanently restricted net assets	\$57,141,511	\$48,495,220
Temporarily restricted net assets — the portion of perpetual endowment funds subject to a time restriction under TPMIFA — with purpose restrictions	<u>\$11,201,376</u>	\$ 8,725,441
Total endowment classified as temporarily restricted net assets	\$11,201,376	\$ 8,725,441

During 2011 and 2010, based on clarification of donor intent, management reclassified net assets amounting to \$974,342 and \$103,825, respectively.

### 7. RETIREMENT BENEFITS

The University has a defined contribution plan, which is available to all benefit eligible employees who are not members of a religious order. Employees may contribute up to 25% (including the University matching contributions, if any) of annual compensation, subject to statutory limitations, to (i) individual annuity plans from several insurance companies and (ii) a selected group of mutual funds managed by a third-party administrator. The University makes matching contributions equal to 6% of annual compensation for employees with at least one year of continuous service with the University. The University's contribution expense for fiscal years 2011 and 2010 was \$940,610 and \$922,672, respectively.

### 8. COMMITMENTS AND CONTINGENCIES

The University is subject to the oversight of the U.S. Department of Education relating to student financial aid and other agencies relating to grant programs. Management believes that the University is in substantial compliance with the terms of these programs and findings, if any, resulting from such oversight, would not have a material adverse impact on the University's consolidated financial statements.

### 9. RELATED-PARTY TRANSACTIONS

Related-party transactions include pledges receivable and other receivables due from the Basilian Fathers, who nominate at least one-third of the Board of Directors of the University. The amount of the receivable due was \$10,521 for 2011 and \$-0- for 2010.

### 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial accounting standards require disclosure of fair value information about financial instruments for which it is practical to estimate that value. As of June 30, 2011 and 2010, management estimates that (i) the carrying amounts of cash and cash equivalents, cash restricted under debt covenants, cash restricted for investment in land, building, and equipment, student accounts and other receivables, prepayments, accounts payable, accrued liabilities, deferred revenues, and U.S. government grants refundable approximate fair values because of the short maturity of these instruments; (ii) the fair value of the University's investments in marketable securities is based upon the quoted market price on the last business day of the fiscal year; (iii) the fair value of the University's alternative investments is based on values provided by the funds' manager; and (iv) based on borrowing rates currently available with similar terms and average maturities, bonds and loans payable with carrying values of \$35,867,625 have fair values of approximately \$37,577,807 at June 30, 2011 and carrying values of \$37,022,111 had fair values of approximately \$40,104,508 at June 30, 2010.

The University currently records long-term investments at fair value. Accounting standards establish a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the University's assumptions (unobservable inputs). Determining the level at which an asset or liability falls within the hierarchy requires significant judgment considering the lowest-level input that is significant to the fair value measurement as a whole. The hierarchy consists of three broad levels, as follows, with Level 1 being the most observable:

Level 1 — Quoted market prices in active markets for identical assets or liabilities

Level 2 — Quoted market prices in active or inactive markets for similar assets or liabilities and inputs other than quoted prices that are observable

Level 3 — Unobservable inputs developed using the University's and/or third-party estimates and assumptions, which reflect those that market participants would use

The information about the University's long-term investments that are measured at fair value as of June 30, 2011 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value is as follows:

	Level 1	Level 2	Level 3	Total
Equity securities Fixed-income securities Alternative assets	\$34,710,288 12,878,389	\$	\$ 	\$34,710,288 12,878,389 7,312,070
Total	\$47,588,677	\$	\$7,312,070	\$54,900,747

The information about the University's long-term investments that are measured at fair value as of June 30, 2010 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value is as follows:

	Level 1	Level 2	Level 3	Total
Equity securities Fixed-income securities Alternative assets	\$27,321,631 11,178,060	\$ -	\$ - _6,530,105	\$27,321,631 11,178,060 6,530,105
Total	\$38,499,691	\$ -	\$6,530,105	\$45,029,796

**Equity Securities and Fixed-Income Securities** — The estimated fair values of investment securities classified as equity and fixed asset securities are included in Level 1 and are based upon quoted market prices utilizing public information for the same transactions or information provided through third-party advisors.

Alternative Assets — The estimated values of investment securities classified as alternative assets, hedge funds, and private equity partnerships, are included in Level 3. The hedge fund vehicles are priced monthly by Citi Hedge Fund Services ("Citi HFS"), a division of Citigroup, which is a US public company. Citi HFS compiles the prices from each underlying hedge fund administrator to determine the monthly valuation for each multifund pool. Upon completion of the fund valuation, Citi HFS then computes the monthly investor valuations based upon the University's ownership share of each pool and provides this information to the University's funds custodian.

Another division of Citigroup, Citi Private Equity Service ("Citi PES"), is the fund administrator for private equity partnerships. Citi PES compiles the values from each underlying private equity investment to determine the quarterly valuation for each multifund pool. Due to the lag in private equity reporting, this valuation is typically one quarter or more in arrears. The valuations are obtained by the University's investment manager then reviewed and analyzed. Once the review is completed, Citi PES computes the monthly investor valuations based upon the University's ownership share of each pool and provides this information to the University's funds custodian.

A description of the investment in securities measured at fair value at June 30, 2011, with significant unobservable inputs (Level 3) is as follows:

	Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Funds	(a)	\$ 4,706,169	\$ -	Quarterly subject to redemption gate	60 days
Private Equity Funds	(b)	2,605,901	1,906,652	N/A	N/A
Total		\$ 7,312,070	\$ 1,906,652	=	

(a) This category includes two types of hedge funds, fixed income-like hedge funds and equity-like hedge funds. The objective of the fixed income-like Fund is to achieve superior risk-adjusted returns with low volatility and low correlation to both the equity and fixed income markets by investing in a diversified group of pooled investment vehicles, commonly referred

to as "hedge funds." The objective of the equity-like Fund is to maximize risk-adjusted returns and achieve low correlation to the equity markets in a diversified group of pooled investment vehicles, commonly referred to as "hedge funds." These funds may invest in investment vehicles domiciled both within and outside the United States.

(b) This category invests in a diversified group of pooled investment vehicles, commonly referred to as "private equity funds," that include investments in buyout funds, venture capital funds, real estate funds and diversified debt funds. The objective of these Funds is to earn in excess of the public equity markets over a long term (10-15 years) horizon. Due to the nature of investments in this category, distributions are received through liquidation of the underlying assets and would be liquidated over 5 to 15 years. The Funds may invest in investment vehicles domiciled both within and outside of the United States.

A description of the investment in securities measured at fair value at June 30, 2010, with significant unobservable inputs (Level 3) is as follows:

	Category	Fair Value	<b>Unfunded Commitments</b>	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Funds	(a)	\$ 4,532,860	\$ -	Quarterly subject to redemption gate	60 days
Private Equity Funds	(b)	1,997,245	2,400,256	N/A	N/A
Total		\$ 6,530,105	\$ 2,400,256	=	

- (c) This category includes two types of hedge funds, fixed income-like hedge funds and equity-like hedge funds. The objective of the fixed income-like Fund is to achieve superior risk-adjusted returns with low volatility and low correlation to both the equity and fixed income markets by investing in a diversified group of pooled investment vehicles, commonly referred to as "hedge funds." The objective of the equity-like Fund is to maximize risk-adjusted returns and achieve low correlation to the equity markets in a diversified group of pooled investment vehicles, commonly referred to as "hedge funds." These funds may invest in investment vehicles domiciled both within and outside the United States.
- (d) This category invests in a diversified group of pooled investment vehicles, commonly referred to as "private equity funds," that include investments in buyout funds, venture capital funds, real estate funds and diversified debt funds. The objective of these Funds is to earn in excess of the public equity markets over a long term (10-15 years) horizon. Due to the nature of investments in this category, distributions are received through liquidation of the underlying assets and would be liquidated over 5 to 15 years. The Funds may invest in investment vehicles domiciled both within and outside of the United States.

The additional information about assets that have been measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of June 30, 2011 and 2010, is as follows:

	2011 Alternative Investments	2010 Alternative Investments
Beginning balance Gains (losses) — realized/unrealized Purchases Transfers in (out)	\$6,530,105 288,361 518,067 (24,463)	\$6,044,208 298,916 686,993 (500,012)
Ending balance	\$7,312,070	\$6,530,105

Accounting standards permit entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The University elected not to value any additional investments or other financial assets or liabilities at fair value. Accordingly, there is no impact on the consolidated financial statements resulting from this standard.

### 11. FUTURE RENTAL REVENUE

The future minimum rental receipts due under operating leases that have initial or remaining non-cancelable lease terms after June 30, 2011 are as follows:

Years Ending June 30	
2012	\$2,588,797
2013	2,005,817
2014	1,800,877
2015	1,202,648
2016	773,413
Thereafter	645,897
Total minimum lease receipts	\$9,017,449

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